

Message Text

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ACTION EA-14

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FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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R 110717Z SEP 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 8690

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 10839

E.O. 11652: GDS

TAGS: EFIN, ENRG, ID

SUBJECT: PETROLEUM: ACTIVITIES OF LEHMAN BROTHERS
BOND ISSUE GROUP

REF: STATE 158598

1. SUMMARY: LEHMAN BROS GROUP DEPARTED INDONESIA
SEPT 6 AFTER OVER TWO WEEK VISIT TO JAKARTA. RECEIVING
FULL SUPPORT IN EFFORTS TO GATHER NECESSARY DATA, GROUP
WAS PLEASED WITH RESULTS OF VISIT DESIGNED TO LAY GROUND-
WORK FOR ISSUANCE \$25-\$50 MILLION PERTAMINA BOND ISSUE
IN EURODOLLAR MARKET SOMETIME NEXT YEAR. LEHMAN WILL
ANALYZE DATA COLLECTED AND PLANS RETURN VISIT IN EARLY
NOVEMBER TO CONTINUE LEGWORK AND EFFORTS TO OBTAIN GOI
ASSURANCES FOR BOND REPAYMENT. END SUMMARY.

2. ELEVEN-MEMBER LEHMAN BROTHERS "BOND ISSUE" GROUP
INCLUDING REPRESENTATIVES OF LEHMAN BROTHERS, WHITE AND
CASE LAW FIRM, VINCE AND ELKINS LAW FIRM AND ARTHUR YOUNG,
INC ARRIVED JAKARTA AUGUST 21 AND DEPARTED SEPTEMBER 6.
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DURING VISIT WITH AMBASSADOR AUGUST 22, GROUP STRESSED

IMPORTANCE OF OBTAINING GOI GUARANTEE FOR BOND REPAYMENT.

3. WHILE IN INDONESIA, LEHMAN GROUP MET WITH NUMEROUS GOI OFFICIALS INCLUDING MINMINING SADLI, MINFIN WARDHANA, DIRECTOR OIL AND GAS WIJARSO AND VICE CHAIRMAN BAPPENAS SUMARLIN. GROUP ALSO VISITED BATAM ISLAND, JATIBARANG FIELD, PERTAMINA REFINERIES AND POLYPROPYLENE PLANT AT PALEMBANG, AND IAPCO'S CINTA OFFSHORE PRODUCING COMPLEX. ARTHUR YOUNG REPS SPENT TIME WITH PERTAMINA'S FINANCE OFFICERS. GROUP ALSO HAD SEVERAL DISCUSSIONS WITH FNCB OFFICERS.

4. PRIOR DEPARTURE, GROUP SPOKESMAN (LEINBACH) TOLD EMBOFFS GROUP RECEIVED FULL SUPPORT FROM GENERAL IBNU IN EFFORTS TO COLLECT FINANCIAL INFO ON PERTAMINA AND PRINCIPAL SUBSIDIARY COMPANIES (MUCH OF WHICH SENT TO NEW YORK FOR FURTHER ANALYSIS) AND WAS PLEASED WITH PROGRESS MADE. GROUP WAS IMPRESSED BY COMPETENCE AND DEPTH OF PERTAMINA'S STAFF AT UNITS VISITED. DISCUSSIONS WITH EMBOFFS CONCERNING CORRUPTION WERE GENERAL IN NATURE WITH LEINBACH GIVING US IMPRESSION HE WANTED TO EVALUATE INFORMATION RECEIVED BEFORE MAKING SPECIFIC COMMENTS.

5. PRINCIPAL UNANSWERED QUESTION IS WHETHER GOI WILL PROVIDE SATISFACTORY BOND REPAYMENT ASSURANCE. LEINBACH SAID LEHMAN HAD SUGGESTED SEVERAL POSSIBLE APPROACHES TO SADLI AND WARDHANA BUT THEY WERE NONCOMMITTAL. IN ESSENCE LEHMAN IS SEEKING A PRETAX PROVISION WHEREBY GOI WOULD AGREE PERTAMINA TAX PAYMENTS TO GOI WOULD NOT JEOPARDIZE PERTAMINA'S OBLIGATION TO BONDHOLDERS.

6. IN ADDITION TO REPAYMENT ASSURANCE, LEINBACH MENTIONED FOUR MAJOR AREAS THAT REQUIRE CLARIFICATION:

A. PERTAMINA'S ROLE AND INTENTIONS IN DEVELOPING KRAKATAU STEEL COMPLEX (SEE JAKARTA 5635 AND 9150);

B. IMPROVED MONITORING OF OPERATING AND CAPITAL EXPENSES;

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C. PERTAMINA'S OVERALL DEBT STRUCTURE VIS-A-VIS ITS LEVERAGE POSITION; AND,

D. PROSPECTS FOR IMPROVED FINANCIAL MANAGEMENT. LEINBACH SAID ARTHUR YOUNG REPS, WORKING WITH JOHN ABDI (SPECIAL ASSISTANT TO PERTAMINA'S BOARD OF DIRECTORS) AND JOHN NIZAR (CHIEF PERTAMINA'S MANAGEMENT SERVICES DIVISION) WILL DEVELOP RECOMMENDATIONS ON FINANCIAL

MANAGEMENT.

7. AFTER ANALYZING INFORMATION COLLECTED AND DOCUMENTS SENT TO NEW YORK, LEHMAN GROUP WILL RETURN TO JAKARTA EARLY NOVEMBER TO CONTINUE DATA COLLECTION. DEPENDING ON OUTCOME ANALYSIS AND GOI ABILITY TO PROVIDE REPAYMENT ASSURANCE, GROUP SPECULATED BOND DOCUMENTS COULD BE PREPARED BY EARLY 1974 FOR USE WHEN MARKET IS FAVORABLE. LEINBACH SAID THAT ALTHOUGH IBNU WAS ANXIOUS TO HAVE BOND DOCUMENTS PREPARED ASAP, IBNU MORE INTERESTED THAT QUOTE EVERYTHING BE DONE RIGHT UNQUOTE. NEXT STEP, LEINBACH PROPOSED TO IBNU, WOULD BE FULL SCALE AUDIT BY INTERNATIONAL ACCOUNTING FIRM AS NEARLY AS MID-1974 AS STEP TOWARD MEETING SEC STANDARDS TO ENTER U.S. MONEY-MARKET.

8. COMMENT: ALTHOUGH LEHMAN GROUP HAD HOPED MORE COULD HAVE BEEN ACCOMPLISHED DURING RECENT VISIT, THEY WERE OBVIOUSLY PLEASED WITHOUTCOME OF DISCUSSIONS AND APPEARED CAUTIOUSLY OPTIMISTIC ABOUT PROSPECT FOR BOND ISSUE. THROUGHOUT VARIOUS CONVERSATIONS LEHMAN REPS STRESSED IBNU'S FULL SUPPORT IN OBTAINING ANY INFORMATION REQUESTED AND PERTAMINA'S STRONG DESIRE TO ESTABLISH ITSELF AS A REPUTABLE LONG TERM BORROWER IN THE INTERNATIONAL MONEY MARKET.
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